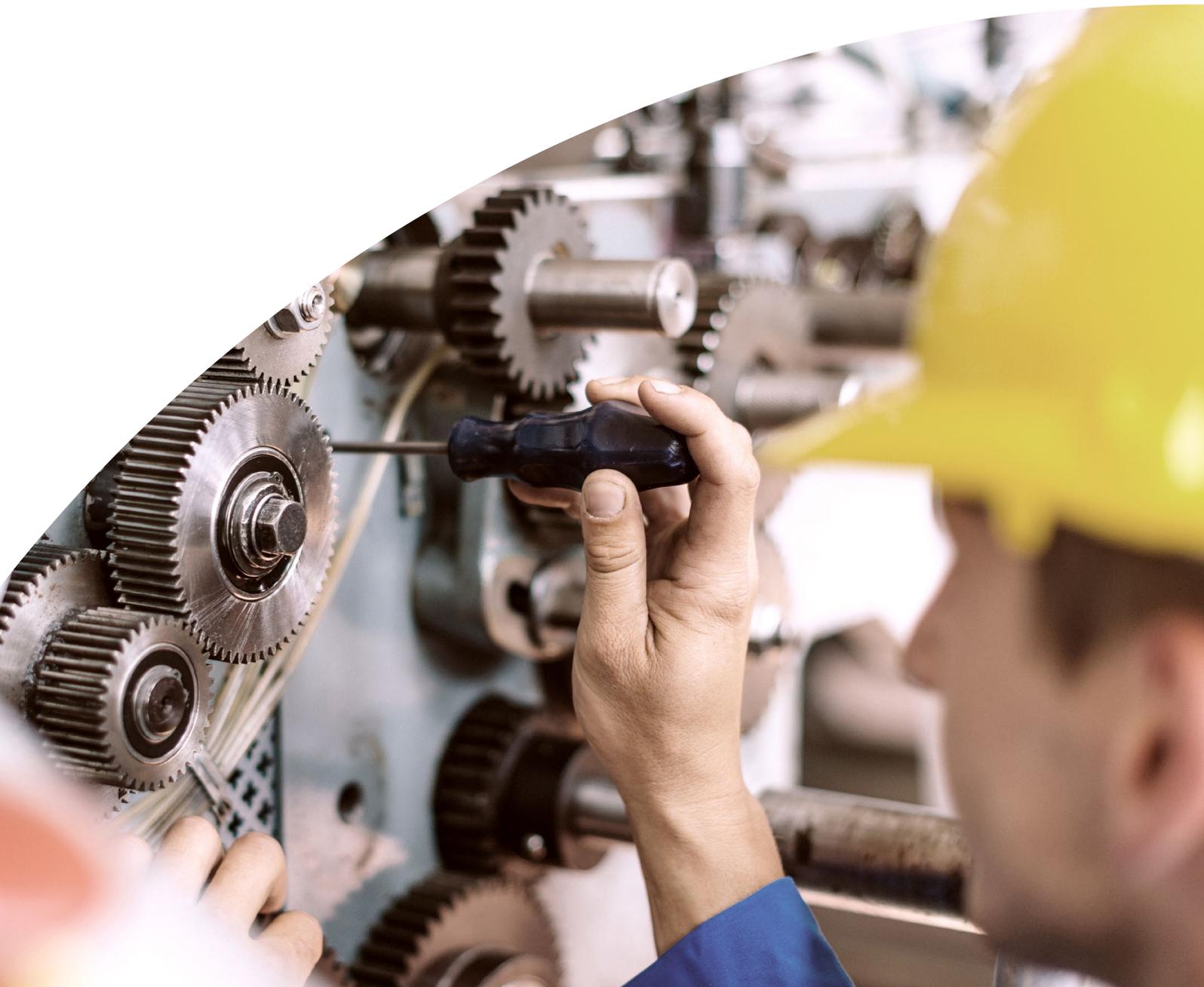


# Contract risk and assurance

Delivering value from your key contracts and suppliers





Contract execution and the performance of your business partners can have a significant impact on costs, operational delivery and your ability to realise opportunities and strategic objectives.

Outsourcing elements of both core and peripheral activities often results in significant costs and operational activities being managed by third parties.

Examples of such arrangements include:

- construction contracts
- project management of subcontractors
- facilities management
- outsourcing of manufacturing and operations
- use of joint ventures to share risk
- partnering arrangements in new markets.

Where reliance is placed on third parties to deliver the key services and control costs, there should be assurance that these aspects are being effectively managed and that improvements are realised.

**Our contract risk and assurance service provides you with assurance and drives improved performance from your third party relationships.**

**In our experience, 85% of companies that had contracts reviewed achieved cost recoveries in excess of our fees.**

# Our approach

We provide a range of contract risk and assurance services including:

## Governance and risk management

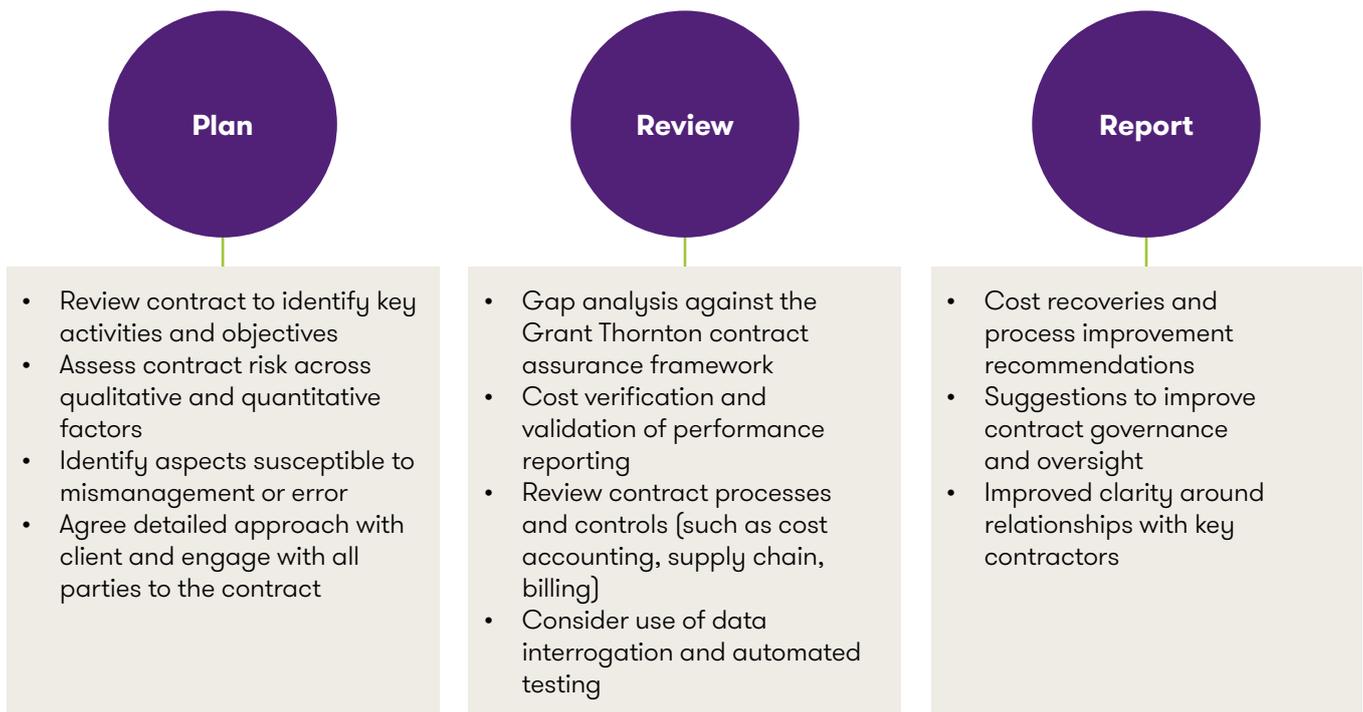
- Governance arrangements
- Contract risk management
- Review of performance indicators and incentive structures
- Contractor management process

## Performance

- Cost verification and profit sharing audits
- Contract compliance, administration, accounting and reporting
- Contract supply chain and management of subcontractors
- Verification of milestone achievement

Our three stage approach reflects the experience we have accrued in performing contract services for leading organisations across a range of sectors. It allows us to benchmark contract provision against the Grant Thornton contract assurance framework and deliver practical and pragmatic assurance and advice.

The key stages of our approach are:



We use experienced professionals to conduct these reviews, recognising your need to obtain assurance in a way which engages your contractors in a constructive fashion. Our reviews provide clarity and objective assurance which strengthens our clients' key relationships.

# Contract Assurance Framework

We have developed a contract assurance framework to assist our clients in effectively managing outsourced relationships. This identifies the key elements of contract management and will ensure that our services are tailored to meet your specific needs.

## Governance & oversight

Is the contract being managed effectively?

Do you have appropriate oversight around your joint ventures?

Are consistent processes and controls applied across your portfolio of contracts?

## Risk

Do you have appropriate oversight of contract risks and their management?

Are supply chain risks understood and being managed?

Do you have assurance around technology risks in managing, delivering, reporting and billing the contract?

## Relationships

Do governance arrangements drive the right level of engagement with your business partners?

Are your contractors earning margins in line with those initially agreed in the contract?

Does your business have the right level of engagement with your joint venture partners?

## Performance

Is there an appropriate use of technology to drive efficiencies in managing and delivering the contract?

Is the contract delivering the benefits you expect?

Are key performance indicators and related rewards structured appropriately to measure and enhance contract performance?

Are incentives aligned to drive efficiency and effective operational performance?

There are a number of aspects to consider when using third parties to deliver contracts.

We provide an approach which will enable you to provide positive responses to these key questions.

## People

Do joint venture reports contain the right level of detail and reach the right people on a timely basis?

Is there appropriate engagement between your operational managers and their contractual counterparties?

Do you have clarity over supplier side roles and responsibilities?

## Change

Have your contractors established appropriate management of change procedures?

Are high levels of contract variations leading to scope or cost creep?

Are change processes sufficiently robust to deliver value for money?

## Pricing

Are you being charged for additional services outside the scope of the contract?

Have contractual rates been correctly applied?

Do you have clarity around commercial risks and complex pricing models?

Are you overpaying your suppliers?

## Cost control

Do your contractors maintain appropriate accounting records to provide you with transparency around costs incurred?

Do your partners operate effective supply chain controls to deliver cost efficiencies?

Are cost forecasts accurate with overruns being reported on a timely basis?

Do cost or profit recoveries reflect the underlying accounting records?



## Energy group

We have been working with this complex and expanding business for the last five years, providing contract risk and assurance services over their largest contractual relationships, with a total contract spend reviewed in excess of \$900 million.

### Our role

Our contract reviews have covered a variety of business partners ranging from large multi-nationals to local niche providers. Each of our reviews has been tailored to contract specific risks and focuses on providing assurance over one or more elements of our contract assurance framework. Specific reviews we have performed include:

- cost verification of \$90 million turnkey drilling contract to assess whether cost control and accounting processes were accurate, and to substantiate charges billed to our client. Our work supported the recovery of costs and identified efficiencies leading to future savings
- review of outsourced procurement, purchase to pay, inventory management and cost accounting processes around an annual facilities management spend of \$80 million. Our work allowed the contractor to align their cost accounting processes with our client's period end close, resulting in a faster, more efficient and accurate process for both parties. We were also able to improve working capital cashflow
- joint venture review of major capital spend (\$150 million) to provide assurance that costs incurred had been approved by the joint venture board and were being appropriately managed, as well as the allocation of the operator's shared cost (c £30 million) across similar projects
- review of outsourced inventory management to ascertain why service levels were not being met, providing a clear action plan for improvements
- recalculation of a corporate overhead allocation based on strict application of contract terms, providing clarity on the level of recharges and resulting in significant financial benefit to our client.

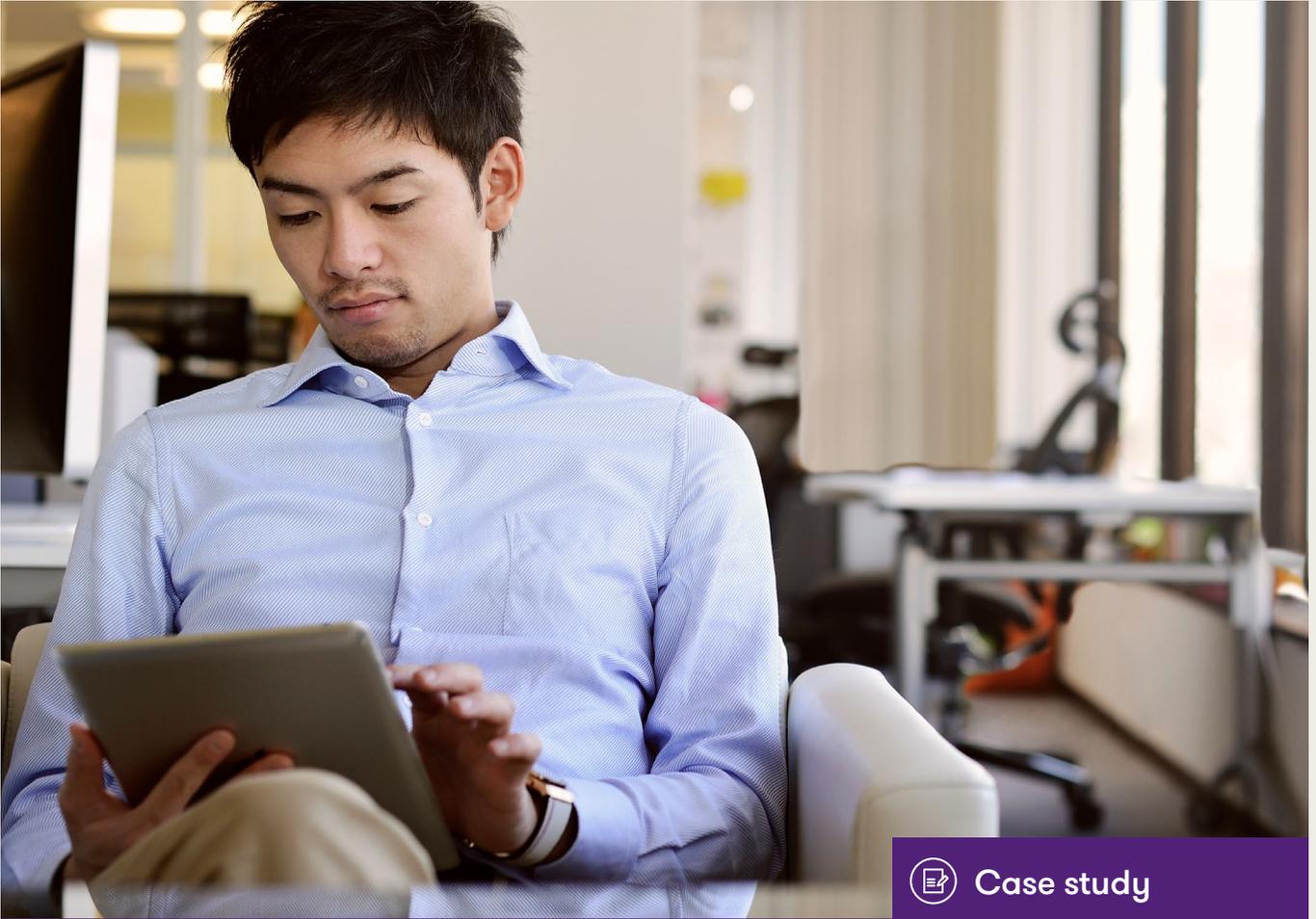
### Value added

We have achieved cost recoveries significantly in excess of our fees. Our work has provided clarity around contract reporting, cost accounting, budgetary control and the level of corporate overheads incurred and recharged. Our reviews have also helped strengthen relationships with partners and key contractors by identifying improvements to governance structures, communication and timeliness of billing.

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“The group subcontracts a significant proportion of its operational activities. Whilst there were no specific concerns, I was keen to receive assurance that these activities were being managed effectively on our behalf. Grant Thornton provided contract audit services and I was impressed with their responsiveness and delivery of high quality results and recommendations. Reviews were delivered in a commercial and pragmatic fashion and served to reinforce positive relationships with our key contractors.”

**Deputy CFO, Oil and Gas group**



 Case study

## Online gaming company

A large online gaming company generated around four million transactions a month based on bets placed, movements to balances and bonus payments. We were asked to identify whether cash had been received from payment service providers for all the bets placed in the system and whether this had been transferred on a timely basis.

### Our role

We developed a series of testing scripts and used our data interrogation tools to match them to the transactions posted in the accounting system. We confirmed that the amounts accounted for were the same as those that had been played. We then performed a similar matching process by obtaining all of the transactions from the bank statements to show that money based transactions related to actual financial transactions.

### Value added

We were able to demonstrate that the payment service providers were holding onto a large amount of cash. As a result, the business was able to significantly enhance their cash flow.

## Why Grant Thornton?

- Commercially minded and risk focused, our team offers a leading combination of quality, expertise and value. We work in partnership with you to deliver incisive, value-adding results. Our team features experienced audit and risk experts, who have held senior positions in leading organisations.
- We have extensive resources in the UK with a dedicated team of over 350 risk and assurance specialists. We have global reach across over 130 countries, with 50,000 professionals around the world, 2,500 of which are dedicated to our Business Risk Services.

## Who should I contact for assistance?

If you would like to know more about our contract risk and assurance services, please contact:



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